FIRST NATIONS AND MÉTIS FUND INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2009

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of financial position of First Nations and Métis Fund Inc. as at December 31, 2009 and the statements of operations and comprehensive (loss) income, (deficit) retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

March 2, 2010

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF FINANCIAL POSITION

As at December 31

	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 3)	$ 1,389,894	$ 1,189,184
Interest and accounts receivable (Note 4)	6,564	52,194
	1,396,458	1,241,378
Investments (Note 5)	1,508,027	2,941,198
	$ 2,904,485	$ 4,182,576
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities	$ 9,408	$ 14,114
Due to Crown Investments Corporation of Saskatchewan (Note 6)	4,100,000	4,100,000
	4,109,408	4,114,114
Shareholder's equity		
Share capital (Note 7)	100	100
(Deficit) retained earnings	(1,205,023)	68,362
	(1,204,923)	68,462
	$ 2,904,485	$ 4,182,576

Commitments (Note 8)

(See accompanying notes)

________________, Director

________________, Director

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

For the year ended December 31

	2009	2008
REVENUES		
Interest	$ 225,437	$ 310,163
Financing fee	-	8,800
Commitment fee	-	15,000
Unrealized loss on investments (Note 5)	(1,261,943)	(21,448)
	(1,036,506)	312,515
EXPENSES		
Audit fees	9,175	8,425
Investment committee remuneration and expenses	15,134	14,748
Management fees (Note 9)	189,000	189,150
Marketing	9,745	6,239
Provision for uncollectible interest (Note 4)	11,880	-
Office and other	1,945	367
	236,879	218,929
NET (LOSS) EARNINGS	(1,273,385)	93,586
OTHER COMPREHENSIVE INCOME	-	-
COMPREHENSIVE (LOSS) INCOME	$ (1,273,385)	$ 93,586

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF (DEFICIT) RETAINED EARNINGS

For the year ended December 31

	2009	2008
RETAINED EARNINGS (DEFICIT), BEGINNING OF YEAR	68,362	(25,224)
NET (LOSS) EARNINGS	(1,273,385)	93,586
(DEFICIT) RETAINED EARNINGS, END OF YEAR	$ (1,205,023)	$ 68,362

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

STATEMENT OF CASH FLOWS

For the year ended December 31

	2009	2008
OPERATING ACTIVITIES		
Net (loss) earnings	$ (1,273,385)	$ 93,586
Add non-cash items:		
Unrealized loss on investments	1,261,943	21,448
Deferred interest	(18,147)	-
	(29,589)	115,034
Net change in non-cash working capital balances related to operations:		
Decrease (increase) in interest and accounts receivable	45,630	(31,156)
Decrease in accounts payable and accrued liabilities	(4,706)	(14,565)
Cash provided by operating activities	11,335	69,313
INVESTING ACTIVITIES		
Proceeds from collection of investments	189,375	180,000
Purchase of investments	-	(2,200,000)
Decrease in funds held in escrow	-	2,200,000
Cash provided by investing activities	189,375	180,000
NET CHANGE IN CASH DURING YEAR	200,710	249,313
CASH POSITION, BEGINNING OF YEAR	1,189,184	939,871
CASH POSITION, END OF YEAR	$ 1,389,894	$ 1,189,184

(See accompanying notes)

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

1. Status of the Corporation

First Nations and Métis Fund Inc. (the Corporation) was established on May 9, 2006 under *The Business Corporations Act*. The Corporation is a wholly-owned subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a Saskatchewan provincial Crown corporation. Accordingly, the accounts of the Corporation are consolidated in the annual financial statements of CIC.

The Corporation was established to provide venture capital to qualifying First Nations and Métis businesses in the Province of Saskatchewan. Due to the Corporation's ownership structure, it is not subject to provincial or federal income tax.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

a) Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues, and expenses. Such estimates primarily relate to investment valuations and unsettled transactions and events as of the date of the financial statements. The financial statements are based on management's best estimates using information available. Accordingly, the inherent uncertainty involved in making estimates and assumptions may impact the actual results reported in future periods by a material amount.

b) Cash and cash equivalents

Cash and cash equivalents include short-term investments that have a maturity date of ninety days or less.

c) Financial Instruments

All financial instruments are measured at fair value on initial recognition. Trade-date accounting is used when recording the purchase or sale of investments. The Corporation recognizes all transaction costs immediately in net earnings. Measurement in subsequent periods depends on the classification of the financial instrument. Fair values are approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities. Fair values are estimates using valuation methods which are significantly affected by management's assumptions used concerning, for example, the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgement and future-oriented information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments. The Corporation has classified the fair value of its financial instruments using the following hierarchy based on the nature of inputs used in the valuation:

Level One	Where quoted prices are readily available from an active market.
Level Two	Valuation model not using quoted prices, but still predominantly observable market inputs such as market interest rates.
Level Three	Fair value determined based on inputs that are not based on observable market data.

2. Summary of Significant Accounting Policies (continued)

c) Financial Instruments (continued)

The Corporation has made the following classifications:

- Cash and cash equivalents are classified as held-for-trading and measured at fair value due to their short-term maturity (level one).
- Interest and accounts receivable are classified as loans and receivables and are recorded at amortized cost using the effective interest rate method.
- Loans and debentures are classified as held-for-trading and recorded at fair value (level three).
- Equity investments are classified as held-for-trading and recorded at fair value (level three).
- Accounts payable and accrued liabilities, and due to CIC are classified as other liabilities and measured at amortized cost using the effective interest rate method.

d) Revenue recognition

Revenue from investments is recorded as income in the period earned. Income from debt investments is recognized as earned and income from share capital investments is recognized when receivable.

e) Impairment of investments

The Corporation evaluates its investments for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable.

Loans and debentures

An impairment of loans and debentures is recognized in net earnings when the carrying amount of the investment exceeds its net realizable value. The net realizable value of loans and debentures is determined on the basis of expected future cash flows discounted at the effective interest rate inherent in the loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable value of loans and debentures is measured at the fair value of any security underlying the asset, net of expected costs of realization and any amounts legally required to be paid to the borrowers.

Equity investments

Where there has been a decline in the value of an equity investment that is not considered temporary, the investment is written down to its fair value. The fair value of equity investments is determined using a valuation method considered appropriate to the circumstances and may include one or more of the following: (a) a comparison of precedent transactions using valuation parameters such as earnings before interest, taxes, depreciation and amortization (EBITDA) multiples; (b) discounted cash flow analysis; (c) price to earnings or price to operating cash flow analysis using industry comparators and; (d) an analysis of the estimated liquidation value of the investment

2. Summary of Significant Accounting Policies (continued)

f) Future accounting policy changes

The CICA Accounting Standards Board has confirmed that publicly accountable enterprises will be required to adopt IFRS in place of Canadian GAAP for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures for the prior year. The Public Sector Accounting Board (PSAB) in September 2009, approved an amendment to the introduction to the Public Sector Accounting Handbook, which requires Government Business Enterprises (GBE's) to adopt IFRS and Other Government Organizations (OGO's) to adopt either IFRS or the public sector handbook, whichever is considered the most appropriate basis of accounting. The Corporation, as a stand-alone entity is an OGO, however, because CIC has selected IFRS as its accounting platform, the Corporation will be adopting IFRS. The Corporation has commenced an IFRS conversion project including initiating an IFRS implementation plan. The Corporation believes that its conversion project is progressing according to the project plan. The impact on the Corporation's future financial position and results of operations is not expected to be materially affected by the change in accounting standards.

3. Cash and Cash Equivalents

Included in cash and cash equivalents is $1,324,576 (2008 - $1,124,881) of short-term investments which have an effective interest rate of 0.3 per cent (2008 – 2.2 per cent).

4. Interest and accounts receivable

As a result of L&M Wood Products LP's financial condition (Note 5 (b)), the Corporation will record interest on the L&M debenture as received, and therefore, has recorded a provision of $11,880 (2008 - $nil) against accrued interest owing at December 31, 2009. Interest and accounts receivable therefore consists of:

	2009	2008
Gross interest and accounts receivable	$ **18,444**	$ 52,194
Provision for uncollectible interest	**(11,880)**	-
	$ **6,564**	$ 52,194

5. Investments

Investments are comprised of the following:

	2009	2008
Eagle Vision Mulching Inc. (Eagle Vision) - cost (a)	$ **618,147**	$ 705,000
L & M Wood Products LP (L&M) - cost (b)	**2,115,625**	2,200,000
	2,733,772	2,905,000
Change in unrealized (loss) gain on investments	**(1,225,745)**	36,198
Total investments at fair value	$ **1,508,027**	$ 2,941,198

FIRST NATIONS AND MÉTIS FUND INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009

5. Investments (continued)

Investments changed as follows:

	2009	2008
Eagle Vision		
Fair value - beginning of year	$ 741,198	$ 942,646
Repayments	(105,000)	(180,000)
Deferred interest added to loan balance	18,147	-
Unrealized loss on investment	(20,537)	(21,448)
Investment at fair value - end of year	$ 633,808	$ 741,198

	2009	2008
L&M		
Fair value - beginning of year	$ 2,200,000	$ -
Purchases	-	2,200,000
Repayments	(84,375)	-
Unrealized loss on investment	(1,241,406)	-
Fair value - end of year	$ 874,219	$ 2,200,000
Total investments at fair value - end of year	$ 1,508,027	$ 2,941,198

a) On December 29, 2006, the Corporation entered into a Term Loan Agreement with Eagle Vision, a mulching operation located in Big River, Saskatchewan. The Term Loan was for a five-year term with an interest rate of 12.0 per cent with interest calculated and payable monthly. Principal amounts of $15,000 are due on a monthly basis.

In November, 2009, the Corporation approved the deferral of $90,000 in principal payments from Eagle Vision covering the period August, 2009 to January 2010, repayable at the end of the term of the loan. The Corporation also approved the deferral of $18,147 in accrued interest covering the period August to October, 2009, which has been added to the outstanding principal balance.

The Corporation receives annual bonus interest from Eagle Vision equal to 10.0 per cent of Eagle Vision's net profit for its immediately preceding fiscal year. Included in interest revenue is $Nil (2008 - $31,442) in bonus interest.

5. Investments (continued)

b) On December 7, 2007 the Corporation advanced funding in the amount of $2,200,000 for an investment in L&M, a forestry company located in Glaslyn, Saskatchewan. The investment consists of the following:

a. Subordinated Debenture of $1,250,000 which has a five-year term with an interest rate of 12.0 per cent, calculated and payable monthly. Principal amounts of $14,063 are required to be repaid on a monthly basis beginning on January 1, 2009, with a lump sum payment of $589,063 to be made at the maturity date. The subordinated debt portion of the Term Loan contains warrants equal to 4.0 per cent common voting units. Prepayment penalties have been put in place as follows: months 1 to 12 - 4.0 per cent, months 13 to 36 - 3.0 per cent, months 37 to 43 - 2.0 per cent and months 44 to 60 - 1.0 per cent.

In August, 2009, the Corporation as well as L&M's senior lender and other subordinated debt holders approved the deferral of principal payments covering the period July, 2009 to December, 2009 and the waiver of all financial covenants until November 30, 2010 with the exception of the current ratio which was set at 0.85:1 to November 30, 2010, before reverting back to the original 1.2:1. As a result the Corporation deferred $84,375 of principal payments in 2009.

b. Preferred Units portion of the Term Loan of $950,000 includes Put Rights which state that at any time, but not before 5 years following the Corporation's first advance of its equity investment, the Corporation may request that L&M purchase all or some of its Preferred Units in L&M. This portion of the Term Loan also includes Call Rights which state that at any time, but not before 7 years following the Corporation's first advance of its equity investment, L&M may request that the Corporation sell to L&M all, but not less than all of its Preferred Units in L&M. The value of these units for the purposes of the provisions is outlined in the Term Loan agreement. The Corporation is entitled to appoint one director to L&M's board of directors.

Due to the impact of the global economic downturn on the forestry industry, and based on an assessment of the financial condition of L&M, the Corporation concluded that an impairment of L&M's outstanding debenture and equity investment existed at December 31, 2009. As a result, the Corporation recognized an impairment on the L&M debenture equal to 25.0 per cent of the remaining principal balance or $291,406 (2008 - $Nil) and an impairment on the L&M preferred units equal to its book value of $950,000 (2008 - $Nil). These amounts have been included in unrealized loss on investments on the statement of operations and comprehensive (loss) income.

6. Due to Crown Investments Corporation of Saskatchewan

Order in Council #365/2006 authorized the Corporation to obtain funds not to exceed $20,000,000 from CIC. Amounts due to CIC are non-interest bearing and payable on demand.

7. Share Capital

	2009	2008
Authorized - 100 Class A voting shares		
Issued and outstanding - 100 shares	**$ 100**	$ 100

8. Commitments

The Corporation has committed to invest up to $1,500,000 in Eagle Vision Mulching Inc., subject to certain milestones. To December 31, 2009, the Corporation has provided $900,000 (2008 - $900,000) of this commitment.

9. Management Fees

Under the terms of a management services agreement between Westcap Mgt. Ltd. and the Corporation, Westcap Mgt. Ltd. provides the general management and administration for the business and affairs of the Corporation for a monthly service fee. The management fee is calculated as the greater of i) $1/12^{th}$ of 2.5 per cent of the Corporation's net asset value or ii) $15,000 monthly. The management service agreement expires in 2020.

10. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations related to the Corporation by virtue of common control by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

CIC provides management services to the Corporation without charge.

11. Financial Risk Management

Market Risk

The Corporation is exposed to the risk that the fair value of its investments may decline due to a reduction in the anticipated earnings generated by the businesses invested in. The Corporation's investments are dependent upon a single product or industry. Since the Corporation's investments are carried at fair value, the Corporation believes that the risks associated with business earnings and industry characteristics are adequately addressed through investment valuation policies.

Interest rate price risk reflects the risk that the Corporation's earnings will fluctuate due to changes in interest rates. The Corporation's loans, debentures and short term investments are at fixed rates. However, the Corporation is exposed to interest rate price risk related to the fair value of those investments. Given the current low interest rate environment, the Corporation does not believe that the impact of fluctuations in interest rates will be significant and therefore has not provided a sensitivity analysis of the impact on net earnings.

11. Financial Risk Management (continued)

Credit Risk

Credit risk is the risk that an investee will fail to perform its obligations. The Corporation's maximum credit risk exposure is equal to the book value of its investments and short term investments. The ability of an investee to meet contractual obligations is affected by changing economic, political or other conditions. The Corporation conducts a due diligence process prior to committing to the investment and actively monitors the financial condition of its investments. The Corporation believes that any deterioration in investee credit worthiness would be detected and addressed through the Corporation's investment valuation policies. Credit risk associated with the Corporation's short-term investments is minimal since those investments are made through the Saskatchewan Ministry of Finance and are therefore subject to Ministry credit policies which limit exposure.

Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to meet its financial commitments as they become due. The Corporation is a subsidiary of a Provincial Crown corporation and as such has access to capital markets through the Saskatchewan Ministry of Finance. Currently the Corporation has sufficient resources to discharge all liabilities.